# LEGISLATIVE SERVICES AGENCY
## OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

## FISCAL IMPACT STATEMENT

**LS 7140** | **NOTE PREPARED:** Feb 22, 2005
**BILL NUMBER:** HB 1301 | **BILL AMENDED:** Feb 21, 2005

**SUBJECT:** Phase-In of Annual Assessed Value Adjustments.

**FIRST AUTHOR:** Rep. Saunders | **BILL STATUS:** 2nd Reading - 1st House
**FIRST SPONSOR:**

**FUNDS AFFECTED:** X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

| STATE IMPACT | FY 2005 | FY 2006 | FY 2007 |
|---|---|---|---|
| **State Revenues** | | | |
| **State Expenditures** | | **(15,800,000)** | **(45,200,000)** |
| **Net Increase (Decrease)** | | **15,800,000** | **45,200,000** |

**Summary of Legislation:** (Amended) *Annual AV Adjustments:* This bill postpones from 2005 to 2006 the implementation of annual adjustments of real property assessed value and then phases in the annual adjustment determined for 2006.

*Reassessment Increase Credit:* The bill also provides a property tax credit, phased out over four years, based on the amount by which a property tax increase resulting from a general reassessment of a homestead exceeds 75%.

**Effective Date:** Upon passage; January 1, 2005 (retroactive).

**Explanation of State Expenditures:** *Annual AV Adjustments:* Under current law, annual adjustments to real property assessed values will begin with March 1, 2005, assessments for taxes payable in 2006. This bill would delay the effective date so that the adjustments would first be effective with March 1, 2006, assessments for taxes payable in 2007.

The full 2007 adjustment would update pricing from 1999 to 2005, a six-year update to catch up from the last reassessment to the year of implementation. The 2007 adjustment also includes factors for equalization of the values determined during the 2002 pay 2003 reassessment. Adjustments in other years will update pricing for only one year. This bill would phase in over three years the AV adjustment that would otherwise be effective with taxes due in 2007. Annual adjustments for taxes paid in 2008 and 2009 would be applied along with one-third of the 2007 adjustment in each of those years.

Under current law, the additional PTRC and homestead credit payments that are attributable to the annual adjustments are estimated at $47.4 M in CY 2006. The delay under this proposal would result in state savings of that amount in CY 2006. In addition, the three-year phase-in of the first year's adjustment would create a PTRC and homestead credit savings in CY 2007 and CY 2008.

The total savings would amount to an estimated $15.8 M in FY 2006, $45.2 M in FY 2007, $34.4 M in FY 2008, and $14.5 M in FY 2009. There would be no change in state expenditures after FY 2009. PTRC and Homestead credits are paid from the Property Tax Replacement Fund (PTRF). These credits are paid from the state General Fund if insufficient balances are available in the PTRF.

The Department of Local Government Finance (DLGF) is required to adopt rules establishing a system for annually adjusting the assessed value of real property to account for changes in value in those years since a general reassessment of property last took effect. The DLGF has adopted a rule that is currently making its way through the promulgation process. This fiscal impact statement is based on the proposed rule.

(Revised) *Reassessment Increase Credit:* If credits are granted under this provision, the resulting increase in property tax rates, as explained in *Explanation of Local Revenues*, would cause the gross charged (or abstract) levy to increase. Since PTRC and Homestead Credit payments are calculated using the gross abstract levy, the state's payments for these credits would increase under the proposal. Since the credit would most likely apply to very few, if any, taxpayers in a given reassessment year, the additional expense for state PTRC and homestead credits, if any, would be very minimal.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** *Annual AV Adjustments:* The administration of annual AV adjustments by local assessors is estimated to cost up to $6 M, statewide. If the effective date of the adjustments is delayed, some of the additional duties that local assessors will have might be able to be delayed from 2005 to 2006. However, much of the work for March 1, 2006, adjustments will still have to be done in 2005. The delay could save some, but not all, additional expenses in CY 2005.

In addition, the cost of local homestead credits would be affected by the delay. Ten Indiana counties provide local homestead credits funded with proceeds from the County Option Income Tax (COIT). The cost of the local homestead credit will increase along with the state homestead credit under annual adjustments. The increase in CY 2006 under current law is estimated at $3.9 M. The delay under this proposal would result in local homestead credit savings of $3.9 M in CY 2006. The phase-in would reduce local homestead credit expenses by $3.6 M in CY 2007 and $2.0 M in CY 2008.

The amount spent on local homestead credits reduces the amount available for distribution to the civil taxing units in the county. So, the local homestead credit savings would be distributed to local civil units.

**Explanation of Local Revenues:** *Annual AV Adjustments:* Tax shifts between and within property classes that are associated with the annual adjustments would be delayed by one year and then phased in over three years under this proposal.

(Revised) *Reassessment Increase Credit:* Under this provision, the owners of homesteads whose property tax bills rise by at least 75% as a result of a general reassessment that occurs after July 30, 2005 would be eligible for a credit against their property tax bills. (The next general reassessment is scheduled to take effect with taxes paid in 2010.) The amount of the credit would be equal to a percentage of the dollar amount by which taxes increased in the reassessment year. The percentage and duration of the credit depend on the percentage increase in the tax bill and are summarized below.

| Credit Percentage As a % of Tax Increase | | | |
|---|---|---|---|
| **Tax Bill % Increase in Reassessment Year** | **Year 1** | **Year 2** | **Year 3** |
| Less than 75% | 0 | | |
| 75% - 149% | 50% | | |
| 150% - 224% | 67% | 33% | |
| 225% and Over | 75% | 50% | 25% |

The general reassessment that took effect with taxes paid in 2003 was unique in that it changed the methods used in determining the assessed value of real property and resulted in some large increases and reductions in tax liabilities for some homeowners. Assuming that there will not be any further major changes in assessment methods and given that annual adjustments to assessments will commence with taxes paid in 2007 under this bill, it is unlikely that a future general reassessment would cause changes of this magnitude again. This provision, therefore, should have minimal impact.

Effect on Property Tax Revenue: The credit would cause a shift of property taxes from those taxpayers receiving the credit to all taxpayers through an increased property tax rate. A property tax credit that is not funded from some other revenue source normally causes a revenue loss for local taxing units. However, the bill directs local officials to adjust the assessed value (AV) that is used in setting tax rates in order to eliminate or minimize the levy reductions that would otherwise be caused by the reassessment increase credits. This means that for levy-controlled funds, the AV used to calculate tax rates will be artificially low and the resulting tax rate will be artificially high. The higher tax rate will be applied to the AV of all properties, both real and personal, and will produce a higher charged (abstract) levy for each unit. The higher abstract levies would also result in increased PTRC and homestead credits. After all credits, including the credit created in this bill, are paid to homeowners, the taxing units' total revenues for rate-controlled funds should be relatively unaffected by this bill.

If credits are granted under this provision, there would most likely be a reduction of revenue for local taxing units' rate-controlled funds such as cumulative building and capital projects funds. The revenue loss stems from the fact that if the tax rate is already at the maximum rate allowed, it cannot be increased even if the assessed value is lowered.

Since the credit would most likely apply to very few, if any, taxpayers in a given reassessment year, the impact on local taxing units, tax rates, and state PTRC and homestead credits discussed above would be very minimal.

**State Agencies Affected:** Department of Local Government Finance.

**Local Agencies Affected:** Local assessors.

**Information Sources:** Fiscal analysis on proposed administrative rule #02-0297; Local Government Database.

**Fiscal Analyst:** Bob Sigalow, 317-232-9859.